

**SPRING CITY, UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2005**

SPRING CITY, UTAH
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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

October 12, 2005

**Honorable Mayor
Members of the City Council
Spring City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements, of Spring City, Utah (City) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City at June 30, 2005, and the changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated October 12, 2005 on my consideration of Spring City, Utah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United State of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Spring City's basic financial statements. The combining nonmajor fund statements described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Greg Ogden,
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Spring City, we offer readers of Spring City's financial statements this narrative overview and analysis of the financial activities of Spring City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The total net assets of Spring City increased \$135,904 totaling \$5,350,750. The governmental net assets increased by \$108,711 and the business type net assets increased by \$27,193.
- The total net assets of the governmental and business-type activities is \$5,350,750. It is made up of 4,462,266 in capital assets, net of related debt, \$225,792 restricted for capital projects and bond requirements, and \$662,692 unrestricted.
- The long-term debt or liabilities of Spring City decreased by \$85,136. The long term debt for government activities decreased by \$21,973 due to payments on the 1991 series road bond and cemetery loan. The business type activities long term debt decreased \$63,163 due to various water and sewer revenue bond payments.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to Spring City's basic financial statements. Spring City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Spring City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Spring City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Springville City is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of Spring City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found on page 12-14 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Spring City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds, and proprietary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund. The remaining governmental funds are determined to be non-major and are included in the combining statements within this report.

- **Proprietary funds** - Spring City maintains one type of proprietary fund, an enterprise. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Spring City uses enterprise funds to account for its Electric Utility, Water Utility, and Sewer Utility. As determined by generally accepted accounting principles, the Electric, Water and Sewer enterprise funds meet the criteria for major fund classification..

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Spring City, assets exceed liabilities by \$5,350,750.

By far the largest portion of Spring City's net assets (84.0%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

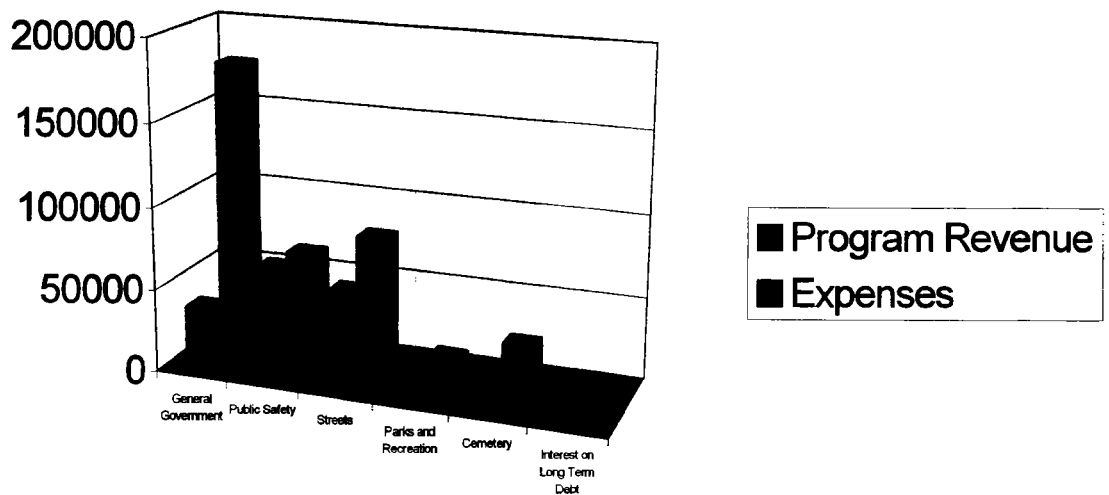
	Governmental Activities		Business-type Activities	
	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>
Current Assets	398,478	437,181	338,392	303,244
Non Current Assets	<u>2,307,861</u>	<u>2,159,575</u>	<u>3,881,780</u>	<u>3,952,472</u>
Total Assets	<u>2,706,339</u>	<u>2,596,756</u>	<u>4,220,172</u>	<u>4,255,716</u>
Current Liabilities	35,727	27,908	39,066	39,595
Non Current Liabilities	<u>75,788</u>	<u>82,735</u>	<u>1,425,180</u>	<u>1,487,388</u>
Total Liabilities	<u>111,515</u>	<u>110,643</u>	<u>1,464,246</u>	<u>1,526,983</u>
Net Assets:				
Invested in Capital Assets	2,214,831	2,066,811	2,247,435	2,275,853
Net of Related Debt				
Restricted	15,219	26,964	210,573	189,843
Unrestricted	<u>364,774</u>	<u>392,338</u>	<u>297,918</u>	<u>263,037</u>
Total Net Assets	<u>2,594,824</u>	<u>2,486,113</u>	<u>2,755,926</u>	<u>2,728,733</u>

CHANGES IN NET ASSETS

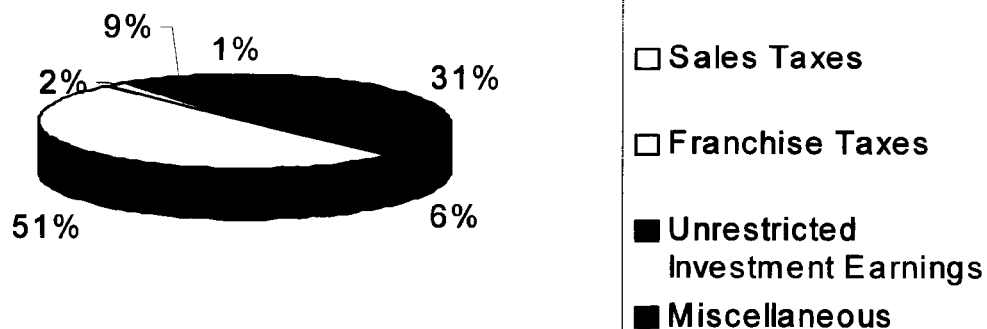
	Governmental Activities		Business-type Activities	
	2004-2005	2003-2004	2004-2005	2003-2004
Revenues				
Program Revenues				
Charges for Services	57,186	54,117	612,525	630,946
Operating Grants and Contributions	586	533	-	-
Capital Grants and Contributions	137,913	80,866	-	-
General Revenues				
Property Taxes	44,210	42,639	-	-
Sales and use Taxes	73,409	68,629	-	-
Other Taxes	11,203	15,820	-	-
Other Revenues	<u>13,827</u>	<u>35,516</u>	<u>4,469</u>	<u>2,859</u>
Total Revenues	<u>338,334</u>	<u>298,120</u>	<u>616,994</u>	<u>633,805</u>
Expenses				
General Government	175,431	164,263	-	-
Public Safety	62,055	43,241	-	-
Streets/Public Works	77,377	78,097	-	-
Parks and Recreation	7,820	8,363	-	-
Cemetery	22,006	8,805	-	-
Interest on Long-term Debt	4,934	6,446	-	-
Water	-	-	110,827	114,274
Sewer	-	-	101,370	93,500
Electric	-	-	<u>257,604</u>	<u>259,041</u>
Total Expenses	<u>349,623</u>	<u>309,215</u>	<u>469,801</u>	<u>466,815</u>
Increase I Net Assets				
Before Transfers	(11,289)	(11,095)	147,193	166,990
Transfers	<u>120,000</u>	<u>120,000</u>	<u>(120,000)</u>	<u>(120,000)</u>
Change in Net Assets	<u>108,711</u>	<u>108,905</u>	<u>27,193</u>	<u>46,990</u>
Net Assets Beginning	<u>2,486,113</u>	<u>2,377,208</u>	<u>2,728,733</u>	<u>2,681,743</u>
Net Assets Ending	<u>2,594,824</u>	<u>2,486,113</u>	<u>2,755,926</u>	<u>2,728,733</u>

The following graphs display the government-wide activities for governmental activities reflected in the above tables. Program revenues included in the first graph are fees charged for specific services performed by the various governmental functions. General Revenues such as property taxes, sales and use taxes, etc, are not included.

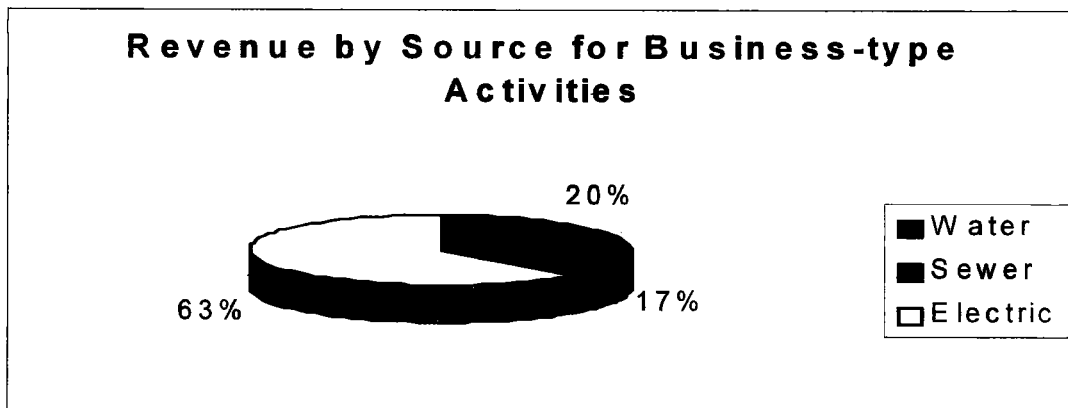
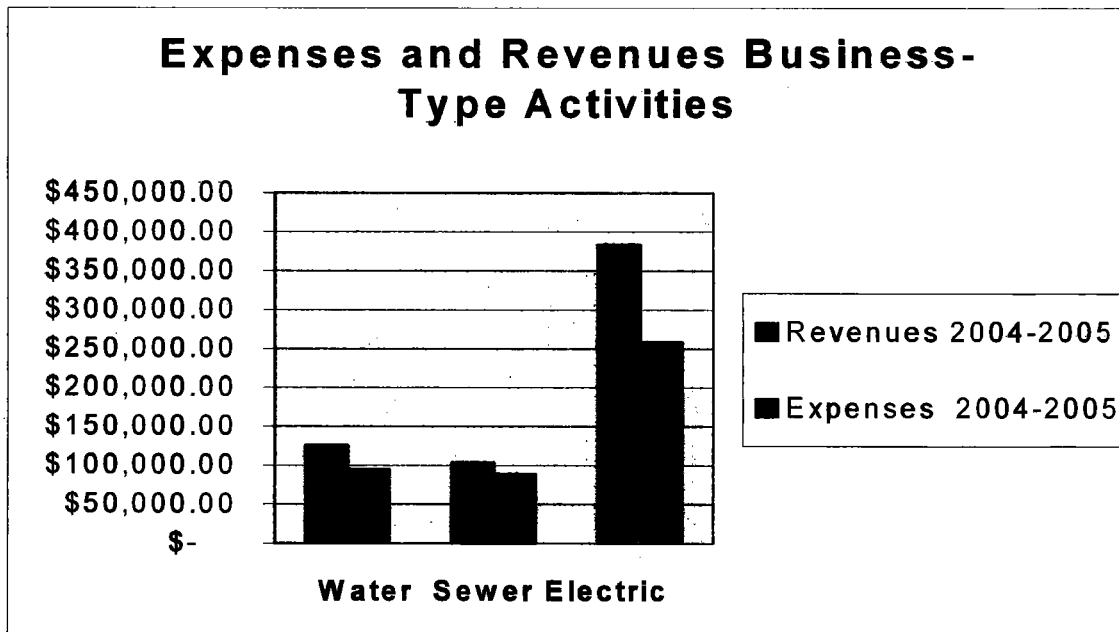
Expenses and Program Revenues- Governmental Activities



Revenues By Source-Governmental Activities



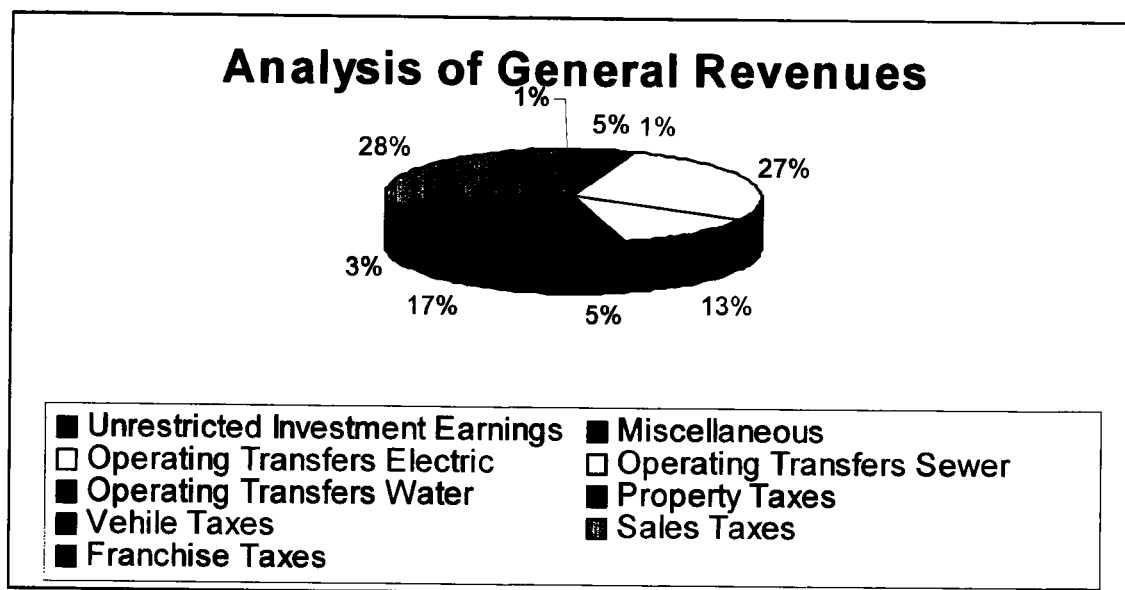
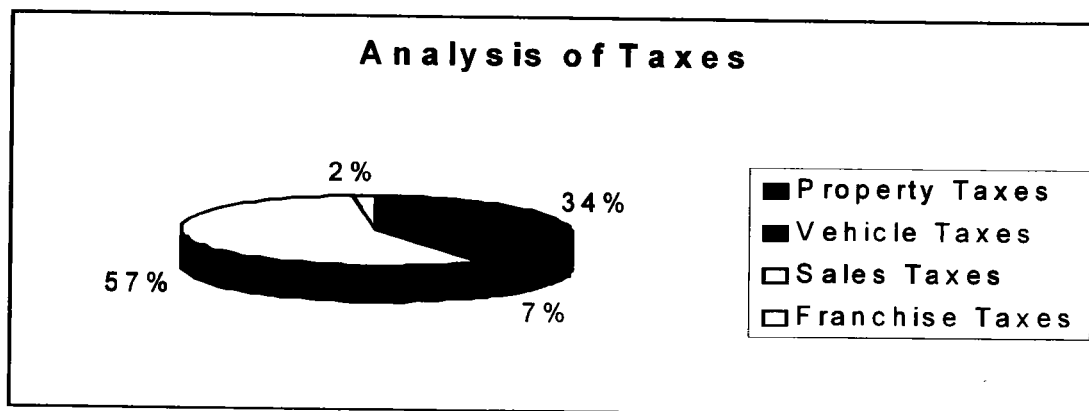
As can be seen from the following charts, the majority of revenues in the business-type activities are in charges for services with the electric fund providing 63%, the sewer fund providing 17% and the water fund providing 20% of the business-type revenues. Expenses for each fund reflect direct operating costs.



FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As of the June 30, 2005, the City's governmental funds reported combined fund equity of \$337,320. The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund. The other source of revenue in the General Fund includes unrestricted investment earnings, miscellaneous earnings, and operating transfers from the water, sewer and electric departments.



As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2004-2005 fiscal year, the general fund budgeted expenditures were increased from the original budget total by \$3,821. The budgeted revenues were increased from the original budgeted by \$19,040. The excess of budgeted expenditures over actual expenditures was \$33,329. Amendments to the original 2004-2005 fiscal budget were due to costs accrued by the city in the capital projects fund and some revenues and expenditures during the year that were higher than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Spring City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$5,963,849 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, etc.), and machinery and equipment. The total increase in the City's investment in fixed assets for the current year was \$49,354.

Major capital asset events during the current fiscal year included the following:

• Old School Restoration	\$76,334
• Building Improvements	\$ 6,048
• Cemetery Expansion	\$50,172
• Park & Playground Improvements	\$18,613
• Road Improvements	\$58,469
• Mainstreet Lighting	\$ 4,993
• Water System Improvements	\$ 6,986
• Sewer System Improvements	\$ 6,105
• Electric System Upgrades	\$47,025

SPRING CITY'S CAPITAL ASSETS (Net of Depreciation)

	Governmental Activities		Business-type Activities	
	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>
Capital Assets Not Being Depreciated				
Land	1,180,800	1,180,800	7,110	7,110
Capital Assets Being Depreciated				
Buildings	324,213	247,468	-	-
Improvements and Infrastructure	1,678,654	1,540,768	5,325,319	5,265,202
Machinery & Equipment	<u>49,439</u>	<u>46,360</u>	<u>268,575</u>	<u>268,575</u>
Total	3,233,106	3,015,396	5,601,004	5,540,887
Less Accumulated Depreciation	<u>(940,464)</u>	<u>(863,530)</u>	<u>(1,929,797)</u>	<u>(1,778,258)</u>
Total Capital Assets	<u>2,292,642</u>	<u>2,151,866</u>	<u>3,671,207</u>	<u>3,762,629</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - At June 30, 2005, the City had total bonded debt outstanding of \$1,500,968. Of this amount \$72,157 is considered to be general obligation debt and is backed by the full faith and credit of the City. These general obligation bonds were issued specifically for Class C Roads. \$1,423,613 is debt secured solely by specific revenue sources. The remaining balance of the long-term debt comes from compensated absences that total \$1,567.

SPRING CITY'S OUTSTANDING DEBT

	Governmental Activities		Business-type Activities	
	<u>2004-2005</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2003-2004</u>
General Obligation Bonds	72,157	82,735	-	-
Cemetery Loan	3,631	-	-	-
Revenue Bonds	<u>-</u>	<u>-</u>	<u>1,423,613</u>	<u>1,486,776</u>
Totals	<u>75,788</u>	<u>82,735</u>	<u>1,423,613</u>	<u>1,486,776</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value. The City is significantly under this percentage and only has \$72,157 of outstanding general obligation debt.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Sanpete County (of which Spring City is part) was 5.8 % compared with a state unemployment rate of 4.6% and a national rate of 5.0%. (Source: Utah Department of Workforce Services)
- The major projects budget for next year includes the completion of the expansion of the cemetery, new lighting along mainstreet, building and land improvements, sidewalk improvements, a capital facilities plan, power system upgrades, and park and ground improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Spring City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Budget Officer
Spring City
150 East Center
P.O. Box 189
Spring City, Utah 84662.

BASIC FINANCIAL STATEMENTS

SPRING CITY, UTAH
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 340,765	\$ 280,857	\$ 621,622
Accounts Receivable	57,425	57,535	114,960
Other Assets	288	-	288
TOTAL CURRENT ASSETS	<u>398,478</u>	<u>338,392</u>	<u>736,870</u>
NONCURRENT ASSETS			
Restricted Assets			
Cash and Cash Equivalents	15,219	210,573	225,792
Capital Assets			
Non Depreciable	1,180,800	7,110	1,187,910
Depreciable Assets (net of Depreciation)	<u>1,111,842</u>	<u>3,664,097</u>	<u>4,775,939</u>
TOTAL NONCURRENT ASSETS	<u>2,307,861</u>	<u>3,881,780</u>	<u>6,189,641</u>
TOTAL ASSETS	<u>2,706,339</u>	<u>4,220,172</u>	<u>6,926,511</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities	<u>35,727</u>	<u>39,066</u>	<u>74,793</u>
TOTAL CURRENT LIABILITIES	<u>35,727</u>	<u>39,066</u>	<u>74,793</u>
NONCURRENT LIABILITIES			
Due Within One Year	14,805	64,605	79,410
Due in more than One Year	<u>60,983</u>	<u>1,360,575</u>	<u>1,421,558</u>
TOTAL NONCURRENT LIABILITIES	<u>75,788</u>	<u>1,425,180</u>	<u>1,500,968</u>
TOTAL LIABILITIES	<u>111,515</u>	<u>1,464,246</u>	<u>1,575,761</u>
<u>NET ASSETS</u>			
Investment in Capital Assets, Net of Related Debt	2,214,831	2,247,435	4,462,266
Restricted for Capital Projects	-	-	-
Debt Service	15,219	210,573	225,792
Unrestricted	<u>364,774</u>	<u>297,918</u>	<u>662,692</u>
TOTAL NET ASSETS	<u>\$ 2,594,824</u>	<u>\$ 2,755,926</u>	<u>\$ 5,350,750</u>

See the accompanying notes to the financial statements

SPRING CITY, UTAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
<u>FUNCTIONS/PROGRAMS</u>				
Governmental Activities				
General Government	\$ 175,431	\$ 26,403	\$ -	\$ 38,167
Public Safety	62,055	24,560	586	41,450
Streets	77,377	-	-	58,296
Parks and Recreation	7,820	3,473	-	-
Cemetery	22,006	2,750	-	-
Interest on Long-Term Debt	4,934	-	-	-
Total Governmental Activities	<u>349,623</u>	<u>57,186</u>	<u>586</u>	<u>137,913</u>
Business-type Activities				
Water	110,827	125,311	-	-
Sewer	101,370	103,574	-	-
Electric	257,604	383,640	-	-
Total Business-type Activities	<u>469,801</u>	<u>612,525</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 819,424</u>	<u>\$ 669,711</u>	<u>\$ 586</u>	<u>\$ 137,913</u>

General Revenues
Property Taxes
Vehicle Taxes
Sales Taxes
Franchise Taxes
Unrestricted Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

See the accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (110,861)	-	\$ (110,861)
4,541	-	4,541
(19,081)	-	(19,081)
(4,347)	-	(4,347)
(19,256)	-	(19,256)
(4,934)	-	(4,934)
<u>(153,938)</u>	<u>-</u>	<u>(153,938)</u>
-	14,484	14,484
-	2,204	2,204
-	<u>126,036</u>	<u>126,036</u>
-	<u>142,724</u>	<u>142,724</u>
<u>(153,938)</u>	<u>142,724</u>	<u>(11,214)</u>
44,210	-	44,210
8,737	-	8,737
73,409	-	73,409
2,466	-	2,466
12,485	4,469	16,954
1,342	-	1,342
<u>120,000</u>	<u>(120,000)</u>	<u>-</u>
<u>262,649</u>	<u>(115,531)</u>	<u>147,118</u>
108,711	27,193	135,904
<u>2,486,113</u>	<u>2,728,733</u>	<u>5,214,846</u>
<u>\$ 2,594,824</u>	<u>\$ 2,755,926</u>	<u>\$ 5,350,750</u>

SPRING CITY, UTAH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>Governmental-type Activities</u>		
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 140,829	\$ 199,936	\$ 340,765
Restricted Cash	15,219	-	15,219
Accounts Receivable	2,484	-	2,484
Taxes Receivable	42,673	-	42,673
Class C Road Receivable	12,268	-	12,268
Due from Other Fund	72,150	17,370	89,520
Other Assets	288	-	288
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 285,911	\$ 217,306	\$ 503,217
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 28,811	\$ 4,893	\$ 33,704
Due to Other Fund	-	89,520	89,520
Deferred Revenue	42,673	-	42,673
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	71,484	94,413	165,897
<u>FUND BALANCE</u>			
Designated			
Cemetery Endowments	-	120,924	120,924
Construction	-	1,969	1,969
Reserved			
Debt Service	15,219	-	15,219
Unreserved	199,208	-	199,208
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND EQUITY	214,427	122,893	337,320
TOTAL LIABILITIES AND FUND EQUITY	\$ 285,911	\$ 217,306	\$ 503,217

See the accompanying notes to the financial statements

SPRING CITY, UTAH

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2005

TOTAL GOVERNMENTAL FUNDS BALANCES	\$	337,320
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds		2,292,642
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds		42,673
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds		<u>(77,811)</u>
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TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>2,594,824</u>
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See the accompanying notes to the financial statements

SPRING CITY, UTAH

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Governmental-type Activities		
	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 128,688	\$ -	\$ 128,688
Licenses and Permits	5,760	-	5,760
Intergovernmental	58,882	41,450	100,332
Charges for Services	40,455	2,750	43,205
Fines and Forfeitures	8,221	-	8,221
Interest	8,071	4,414	12,485
Miscellaneous	1,342	-	1,342
TOTAL REVENUES	251,419	48,614	300,033
EXPENDITURES			
General Government	164,433	-	164,433
Public Safety	58,645	-	58,645
Streets	77,614	-	77,614
Parks and Recreation	7,820	-	7,820
Cemetery	-	21,692	21,692
Capital Outlay	-	117,094	117,094
Debt Service			
Principal	-	21,973	21,973
Interest and Fiscal Charges	-	5,231	5,231
TOTAL EXPENDITURES	308,512	165,990	474,502
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(57,093)	(117,376)	(174,469)
OTHER FINANCING SOURCES (USES)			
Proceeds from Long-Term Debt	-	15,026	15,026
Transfers In	120,000	76,402	196,402
Transfers Out	(76,402)	-	(76,402)
TOTAL OTHER FINANCING SOURCES (USES)	43,598	91,428	135,026
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	(13,495)	(25,948)	(39,443)
BEGINNING FUND BALANCE	227,922	148,841	376,763
ENDING FUND BALANCE	\$ 214,427	\$ 122,893	\$ 337,320

See the accompanying notes to the financial statements

SPRING CITY, UTAH

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER
EXPENDITURES AND USES - TOTAL GOVERNMENTAL FUNDS \$ (39,443)

*Amounts reported for governmental activities in the statement of activities
are different because*

Property taxes will not be collected for several months after the City's fiscal
year end. They are not considered to be available revenues in the governmental
funds. Deferred property tax revenues decreased by this amount this year. 134

Governmental funds report capital outlays as expenditures. In the statement
of activities the cost of those assets is allocated over their estimated useful
as depreciation expense. This is the amount by which capital outlays
exceeded depreciation in the current period. 140,776

Issuance of long-term debt provides current financial resources to government
funds. The repayment of the principal of long-term debt consumes the
current financial resources of governmental funds. This amount is the net
difference in the treatment of long-term debt and related items. 6,947

Some revenues and expenses reported in the statement of activities do not add
to or required the use of current financial resources and, therefore, are not
reported as revenues or expenditures in the governmental funds. 297

CHANGE IN NET ASSETS OF GOVERNMENTAL FUNDS \$ 108,711

See the accompanying notes to the financial statements

SPRING CITY, UTAH
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	with Final Budget
REVENUES				
Taxes	\$ 118,150	\$ 127,537	\$ 128,688	\$ 1,151
Licenses and Permits	3,660	5,460	5,760	300
Intergovernmental	68,300	65,869	58,882	(6,987)
Charges for Services	34,259	40,493	40,455	(38)
Fines and Forfeitures	7,000	7,600	8,221	621
Interest	4,162	6,812	8,071	1,259
Miscellaneous	500	1,300	1,342	42
TOTAL REVENUES	236,031	255,071	251,419	(3,652)
EXPENDITURES				
General Government	191,850	182,283	164,433	17,850
Public Safety	65,690	64,837	58,645	6,192
Streets	68,000	82,532	77,614	4,918
Parks and Recreation	12,480	12,189	7,820	4,369
TOTAL EXPENDITURES	338,020	341,841	308,512	33,329
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(101,989)	(86,770)	(57,093)	29,677
OTHER FINANCING SOURCES (USES)				
Transfers In	120,000	120,000	120,000	-
Transfers Out	(18,011)	(33,230)	(76,402)	(43,172)
TOTAL OTHER FINANCING SOURCES (USES)	101,989	86,770	43,598	(43,172)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	-	-	(13,495)	(13,495)
FUND BALANCE ALLOCATION	-	-	-	-
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ -	\$ -	\$ (13,495)	\$ (13,495)

See the accompanying notes to the financial statements

SPRING CITY, UTAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			
				Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Funds</u>
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 47,077	\$ -	\$ 233,780	280,857
Accounts Receivable	11,723	7,988	37,824	57,535
Due from Other Fund	-	-	21,003	21,003
TOTAL CURRENT ASSETS	58,800	7,988	292,607	359,395
NONCURRENT ASSETS				
Restricted Assets				
Cash and Cash Equivalents	105,532	105,041	-	210,573
Capital Assets				
Land	7,110	-	-	7,110
Improvements	2,469,390	2,421,426	434,503	5,325,319
Machinery and Equipment	138,308	16,261	114,006	268,575
Less Accumulated Depreciation	(821,634)	(796,473)	(311,690)	(1,929,797)
TOTAL NONCURRENT ASSETS	1,898,706	1,746,255	236,819	3,881,780
TOTAL ASSETS	1,957,506	1,754,243	529,426	4,241,175
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Accounts Payable	-	-	5,107	5,107
Accrued Interest Payable	159	-	-	159
Customer Deposits	-	-	33,800	33,800
Due to Other Fund	-	21,003	-	21,003
Compensated Absences	-	-	1,567	1,567
Current Portion of Long-Term Debt	42,849	20,189	-	63,038
TOTAL CURRENT LIABILITIES	43,008	41,192	40,474	124,674
NONCURRENT LIABILITIES				
Bonds Payable	1,040,324	320,251	-	1,360,575
TOTAL NONCURRENT LIABILITIES	1,040,324	320,251	-	1,360,575
TOTAL LIABILITIES	1,083,332	361,443	40,474	1,485,249
<u>NET ASSETS</u>				
Investment in Capital Assets, Net of Related Debt	709,842	1,300,774	236,819	2,247,435
Restricted				
Bond Requirements	105,532	105,041	-	210,573
Unrestricted	58,800	(13,015)	252,133	297,918
TOTAL NET ASSETS	\$ 874,174	\$ 1,392,800	\$ 488,952	\$ 2,755,926

See the accompanying notes to the financial statements

SPRING CITY, UTAH
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Total Enterprise Funds</u>
<u>OPERATING REVENUES</u>				
Charges for Services	\$ 115,611	\$ 88,643	\$ 339,448	\$ 543,702
Connection Fees	7,400	3,800	13,215	24,415
Miscellaneous	2,300	11,131	30,977	44,408
TOTAL OPERATING REVENUES	125,311	103,574	383,640	612,525
<u>OPERATING EXPENSES</u>				
Salaries and Benefits	17,013	25,050	231,521	273,584
Production and Maintenance	4,164	2,244	9,433	15,841
Depreciation	73,446	61,444	16,650	151,540
TOTAL OPERATING EXPENSES	94,623	88,738	257,604	440,965
OPERATING INCOME	30,688	14,836	126,036	171,560
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Interest Income	2,110	2,359	-	4,469
Interest Expense	(16,204)	(12,632)	-	(28,836)
Transfer to Other Fund	(14,000)	(34,000)	(72,000)	(120,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(28,094)	(44,273)	(72,000)	(144,367)
CHANGE IN NET ASSETS	2,594	(29,437)	54,036	27,193
TOTAL NET ASSETS AT BEGINNING OF YEAR	871,580	1,422,237	434,916	2,728,733
TOTAL NET ASSETS AT END OF YEAR	\$ 874,174	\$ 1,392,800	\$ 488,952	\$ 2,755,926

See the accompanying notes to the financial statements

SPRING CITY, UTAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Electric	Total Enterprise Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from Customers	\$ 123,629	\$ 104,084	\$ 386,078	\$ 613,791
Payments to Suppliers	(4,164)	(2,244)	(13,017)	(19,425)
Payments to Employees	(17,013)	(25,050)	(230,566)	(272,629)
NET CASH FLOWS FROM OPERATING ACTIVITIES	102,452	76,790	142,495	321,737
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Due to Other Funds	-	-	(3,884)	(3,884)
Due from Other Funds	-	3,884	-	3,884
Transfers Out	(14,000)	(34,000)	(72,000)	(120,000)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(14,000)	(30,116)	(75,884)	(120,000)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Acquistion of Capital Assets	(6,987)	(6,105)	(47,025)	(60,117)
Bond and Note Principal Payments	(43,227)	(19,937)	-	(63,164)
Interest Expense	(16,349)	(12,632)	-	(28,981)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(66,563)	(38,674)	(47,025)	(152,262)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Income	2,110	2,359	-	4,469
NET CASH FLOWS FROM INVESTING ACTIVITIES	2,110	2,359	-	4,469
NET CHANGE IN CASH AND CASH EQUIVALENTS	23,999	10,359	19,586	53,944
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	128,610	94,682	214,194	437,486
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 152,609	\$ 105,041	\$ 233,780	\$ 491,430

See the accompanying notes to the financial statements

SPRING CITY, UTAH

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Electric	
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Operating Income	\$ 30,688	\$ 14,836	\$ 126,036	\$ 171,560
Adjustments				
Depreciation	73,446	61,444	16,650	151,540
Changes in Assets and Liabilities				
Accounts Receivable	(732)	510	(1,712)	(1,934)
Accounts Payable	-	-	(3,584)	(3,584)
Customer Deposits	(950)	-	4,150	3,200
Compensated Absences	-	-	955	955
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 102,452</u>	<u>\$ 76,790</u>	<u>\$ 142,495</u>	<u>\$ 321,737</u>

See the accompanying notes to the financial statements

SPRING CITY, UTAH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Spring City, Utah (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the City's accounting policies.

Financial Reporting Entity

Spring City is incorporated under the laws of the State of Utah. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides municipal services under the following organizational structure:

General Government: Mayor and City Council, Justice Court, Treasurer and Recorder

Public Safety: Police, Fire and Animal Control Services

Public Works: Sanitation, Streets, Water, Sewer and Electric

Parks and Recreation

Cemetery

Government-wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods or services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1 - (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within sixty days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water production, treatment and distribution operations.

The *sewer fund* accounts for the activities of the City's sewer treatment operations.

The *electric fund* accounts for the activities of the City's electric distribution operations.

Activities of these three funds include administration, operations and maintenance of the systems, and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all proprietary fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

NOTE 1 - (CONTINUED)

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Fund Equity

A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

B. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to or due from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government wide financial statements as "internal balances".

C. Restricted assets

Cash which is restricted to a particular use due to statutory, budgetary or bonding requirements is classified as "restricted cash" on the statement of net assets and on the balance sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

D. Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at the date of the gift, if donated.

NOTE 1 - (CONTINUED)

Major additions are capitalized, while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings and Structures	20-50 years
Improvements and Infrastructure	7-40 years
Machinery and Equipment	5-15 years

E. Compensated absences

Accumulated unpaid vacation is accrued as incurred based on the years of service for each employee. Vacation is accumulated on a monthly basis. No more than 5 days of vacation may be carried forward. Proprietary funds expense all accrued vacation amounts when incurred. Governmental funds report an expenditure as the vacation is paid. The accumulated sick leave is earned at a rate of one day per month. However, no accumulated, unused sick leave will be paid at termination.

F. Long-term liabilities

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

G. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of unreserved fund balances are not required by law or accounting principles, but are further classifications of fund equity to identify funds which are earmarked by the City's management for specific purposes. These represent tentative management plans that are subject to change.

H. Net assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 1 - (CONTINUED)

Inter-Fund Transactions

During the course of normal operations, the City has transactions between funds to subsidize operations in certain funds, to allocate administrative costs, to construct assets, to distribute grant proceeds, etc. . These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended.

Deferred Revenue

Property taxes due November 30, 2005 and unpaid from 2004 are shown as deferred revenue.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Asset Differences

When capital assets (land, buildings, improvements and equipment) are purchased or constructed for use in governmental fund activities, the costs of those assets are reported as expenditures in the governmental funds. However, those costs are reported as capital assets in the statement of net assets. The details of these differences are presented below:

Land	\$ 1,180,800
Buildings	324,213
Improvements and Infrastructure	1,678,654
Machinery and Equipment	49,439
Less Accumulated Depreciation	<u>(940,464)</u>
Net Capital Asset Difference	<u>\$ 2,292,642</u>

NOTE 2 - (CONTINUED)

Other Long-Term Asset Differences

Property taxes due in November 2005 are reported as deferred revenues in the governmental fund balance sheet. However, they are reported as current year revenues in the statement of net assets. The details of these differences are presented below:

Property taxes collectible in November 2005	\$ <u>42,673</u>
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Long-Term Liability Differences

Long-Term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet. All liabilities (both current and long-term) are reported in the statement of net assets. The details of these differences are presented below:

Accrued Interest Payable	\$ (2,023)
Note Payable	(3,631)
Revenue Bonds Payable	<u>(72,157)</u>
Total Long-Term Liability Difference	\$ <u>(77,811)</u>

Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund financial statements include a reconciliation between changes in fund balances in the governmental funds and changes in net assets in the government-wide statement of activities. This difference primarily results from the long-term economic focus of the statement of activities versus the current financial resource focus of the governmental fund financial statements.

Capital Outlay and Depreciation Differences

Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balances. They are reported as capital assets, with the costs allocated over the useful lives of the assets, as depreciation, in the statement of activities. The details of these differences are reported below:

Contributed Capital	\$ 38,167
Capital Outlay	179,543
Depreciation Expense	<u>(76,934)</u>
Net Difference	\$ <u>140,776</u>

Long-Term Debt Issuance and Repayment Differences

When long-term debt is issued it is reported as an other financing source. Repayments are reported as expenditures in the statement of revenues, expenditures and changes in fund balance. Issuance of debt is reported as a long-term liability and repayments are reported as reductions of those liabilities in the statement of activities. The details of these differences are reported below:

Cemetery Loan	\$ (15,026)
Principal Repayments of Revenue Bonds	<u>21,973</u>
Net Difference	\$ <u>6,947</u>

NOTE 2 - (CONTINUED)

Other Revenue and Expense Differences

The changes in long-term compensated absences and in accrued interest payable are not reported in the statement of revenues, expenditures and changes in fund balance. Both changes are reported in the statement of activities. The details of these differences are reported below:

Change in Accrued Interest Payable	\$ <u>297</u>
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NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Prior to the first regularly scheduled meeting of the City Council in May, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and proposed sources of revenues.

Between May 1 and June 22, the City Council reviews and adjusts the proposed budget. On or before June 22, a public hearing is held and the budget is legally adopted through passage of a resolution, unless a property tax increase is proposed. If a property tax increase is proposed, a hearing must be held on or before August 17, which does not conflict with other taxing entities that have proposed a property tax increase. At this time the final balanced budget is adopted.

Under Utah State law, the City's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events.

The Mayor has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

A public hearing must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

Annual budgets for the general fund, all debt service funds and capital projects funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

Tax Revenues

Property taxes are collected by the County Treasurer and remitted to the City in two to three installments in November, December, and a final settlement in the first quarter of the calendar year. Taxes are levied and are due and payable on November 1st and are delinquent after November 30th of each year, at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes beyond that which was received within 60 days after the fiscal year end has not been made, as the amounts are not deemed to be material.

NOTE 3 - (CONTINUED)

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ended June 30th and thus due and payable to the City.

Franchise taxes are charged to various utility companies doing business with the City. The fees are remitted on a monthly, quarterly, or annual basis. An accrual has been made for all fees due and payable to the City at June 30th.

NOTE 4 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by several of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

At June 30, 2005, the carrying amount and the bank balance of the City's bank deposits was \$51,622 and \$69,694, respectively.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers acceptances; obligations of the United State Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF),

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

NOTE 4 - (CONTINUED)

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses - net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements or invested in securities representing direct obligations of or obligations guaranteed by the U.S. government, agencies of the U.S. government, any state within the territorial United States of America; or repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements; or certain other investments.

As of June 30, 2005, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
State of Utah Public Treasurer's Investment Fund	\$ 551,247	\$ 366,922	\$ -	\$ 87,473	\$ 96,852
Wells Fargo Money Market Fund	<u>243,186</u>	<u>243,186</u>	-	-	-
Total Investments	<u>\$ 794,433</u>	<u>\$ 610,108</u>	<u>\$ -</u>	<u>\$ 87,473</u>	<u>\$ 96,852</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. As of June 30, 2005, \$212,880 of the Wells Fargo Money Market was uninsured and uncollateralized.

The deposits and investments described above are included on the statement of net assets as per the following reconciliation:

Deposits	\$ 51,622
Investments	794,433
Cash on Hand	<u>1,359</u>
Total	<u>\$ 847,414</u>
Cash and Cash Equivalents	\$ 621,622
Restricted Cash and Cash Equivalents	<u>225,792</u>
Total	<u>\$ 847,414</u>

NOTE 5 - RECEIVABLES

Accounts receivable and the associated allowances for uncollectible accounts at June 30, 2005 are presented in the schedule below.

Property taxes are levied on January 1 of 2005, are due in November of 2005, and are budgeted for the 2005 fiscal year. Even though they are not intended to fund the 2005 fiscal year, they must be recognized as an asset because the City has an enforceable claim to the revenue. The property taxes that have been remitted to the City within 60 days of the end of the current fiscal period have been recognized as revenue. The uncollected, measurable amounts have been accrued as deferred revenue.

Franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the City.

The following is a summary of receivables at June 30, 2005:

	Governmental Activities	Business-type Activities	Total
Accounts Receivable	\$ 2,484	\$ 57,535	\$ 60,019
Class C Road Receivable	12,268	-	12,268
Property Taxes Receivable	<u>42,673</u>	<u>-</u>	<u>42,673</u>
Total	<u>\$ 57,425</u>	<u>\$ 57,535</u>	<u>\$ 114,960</u>

NOTE 6 - CAPITAL ASSETS

Several prior period adjustments to capital assets were required due to the implementation of GASB Statement No. 34. Those adjustments are reflected in the prior period adjustment columns of the schedules below.

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2005.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 1,180,800	\$ -	\$ -	\$ 1,180,800
Capital Assets being Depreciated				
Buildings	247,468	76,745	-	324,213
Improvements and Infrastructure	1,540,768	137,886	-	1,678,654
Machinery and Equipment	<u>46,360</u>	<u>3,079</u>	<u>-</u>	<u>49,439</u>
Total	3,015,396	217,710	-	3,233,106
Less Accumulated Depreciation	<u>(863,530)</u>	<u>(76,934)</u>	<u>-</u>	<u>(940,464)</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,151,866</u>	<u>\$ 140,776</u>	<u>\$ -</u>	<u>\$ 2,292,642</u>

NOTE 6 - (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2005.

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 7,110	\$ -	\$ -	\$ 7,110
Capital Assets being Depreciated				
Improvements and Infrastructure	5,265,202	60,117	-	5,325,319
Machinery and Equipment	<u>268,575</u>	<u>-</u>	<u>-</u>	<u>268,575</u>
Total	5,540,887	60,117	-	5,601,004
Less Accumulated Depreciation	(1,778,258)	(151,539)	-	(1,929,797)
Governmental Activities Capital Assets, Net	\$ <u>3,762,629</u>	\$ <u>(91,422)</u>	\$ <u>-</u>	\$ <u>3,671,207</u>

Depreciation was charged to the functions/programs of the primary government as follows:

Governmental Activities	
General Government	\$ 14,978
Public Safety	3,410
Streets	58,232
Cemetery	<u>314</u>
Total Depreciation Expense-Governmental Activities	\$ <u>76,934</u>
Business-type Activities	
Water	\$ 73,445
Sewer	61,444
Electric	<u>16,650</u>
Total Depreciation Expense-Business-type Activities	\$ <u>151,539</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Governmental Activities	Business-type Activities
Accounts Payable	\$ 33,704	\$ 5,107
Accrued Interest Payable	2,023	159
Customer Deposits	<u>-</u>	<u>33,800</u>
Total Accounts Payable and Accrued Liabilities	\$ <u>35,727</u>	\$ <u>39,066</u>

NOTE 8 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
General Obligation Bonds					
1991 Series Road Bonds	\$ 82,735	\$ -	\$ 10,578	\$ 72,157	\$ 11,174
Cemetery Loan	-	15,026	11,395	3,631	3,631
	<u>\$ 82,735</u>	<u>\$ 15,026</u>	<u>\$ 21,973</u>	<u>\$ 75,788</u>	<u>\$ 14,805</u>
<u>Business-type Activities</u>					
Revenue Bonds					
1984 Water	\$ 24,867	\$ -	\$ 12,008	\$ 12,859	\$ 12,859
1995 Water	7,578	-	5,000	2,578	2,578
1998 Water	779,000	-	22,000	757,000	23,000
1998 Water	314,954	-	4,218	310,736	4,412
1990A Sewer	105,000	-	15,000	90,000	15,000
1990B Sewer	255,377	-	4,937	250,440	5,189
Compensated Absences	612	955	-	1,567	1,567
	<u>\$ 1,487,388</u>	<u>\$ 955</u>	<u>\$ 63,163</u>	<u>\$ 1,425,180</u>	<u>\$ 64,605</u>

Long-term debt and obligations payable at June 30, 2005 were as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Current Portion</u>	<u>Long-term Balance</u>
<u>Governmental Activities</u>				
Bonds Payable				
General Obligation Road Bonds, Series 1991 (original amount-- \$180,000)	Variable	2011	\$ 11,174	\$ 60,983
Cemetery Loan	Variable	2006	3,631	-
Total Governmental Activities Long-Term Debt			<u>\$ 14,805</u>	<u>\$ 60,983</u>

NOTE 8 - (CONTINUED)

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Current Portion</u>	<u>Long-term Balance</u>
Business-type Activities				
Bonds Payable				
Water Revenue Bonds, Series 1984 (original amount--\$142,920)	7.234%	2006	\$ 12,859	\$ -
Water Revenue Bonds, Series 1995 (Original amount--\$100,000)	0.00%	2005	2,578	-
Water Revenue Bonds, Series 1998 (original amount--\$824,000)	0.00%	2020	23,000	734,000
Water Revenue Bonds, Series 1998 (original amount--\$344,000)	4.50%	2038	4,412	306,324
Sewer Revenue Bonds, Series 1990A (original amount--\$286,500)	0.00%	2011	15,000	75,000
Sewer Revenue Bonds, Series 1990B (original amount--\$300,500)	5.00%	2030	5,189	245,251
Compensated Absences			<u>1,567</u>	<u>-</u>
Total Business-type Activities Long-term Debt			<u>\$ 64,605</u>	<u>\$ 1,360,575</u>

Principal and interest requirements to retire the City's long-term obligations are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Government-Wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 14,805	\$ 4,299	\$ 63,038	\$ 27,666	\$ 77,843	\$ 31,965
2007	11,802	3,417	68,069	26,243	79,871	29,660
2008	12,466	2,753	69,560	25,752	82,026	28,505
2009	13,167	2,052	71,075	25,237	84,242	27,289
2010	13,908	1,311	72,616	24,696	86,524	26,007
2011-2015	9,640	411	339,154	114,405	348,794	114,816
2016-2020	-	-	384,228	96,332	384,228	96,332
2021-2025	-	-	108,182	73,378	108,182	73,378
2026-2030	-	-	136,118	44,404	136,118	44,404
2031-2035	-	-	74,331	19,389	74,331	19,389
2036-2038	-	-	<u>37,242</u>	<u>12,720</u>	<u>37,242</u>	<u>12,720</u>
	<u>\$ 75,788</u>	<u>\$ 14,243</u>	<u>\$ 1,423,613</u>	<u>\$ 490,222</u>	<u>\$ 1,499,401</u>	<u>\$ 504,465</u>

NOTE 9 - RESERVED FUND EQUITY

The Class "C" Roads allotment from the state excise tax is reserved for construction and maintenance of City streets and roads. The City's bond covenants require certain reservations of retained earnings in the water and sewer funds. In addition, funds have been designated for various capital projects.

NOTE 10 - RETIREMENT PLANS

Plan Description

Spring City contributes to the Local Governmental Contributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the systems and plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy

Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.0% of their annual salary (all or part may be paid by the employer for the employee) and Spring City is required to contribute 7.08% of their annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Spring City's contributions to the Contributory Retirement System for June 30, 2005, 2004 and 2003 were \$8,872, \$7,016 and \$4,685 respectively. The contributions were equal to the required contributions for each year.

NOTE 11- RISK MANAGEMENT

Spring City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City handles these risks of loss through the purchase of commercial insurance through the Utah Local Governments Trust and through The Leavitt Group. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - OPERATING TRANSFER RECONCILIATION

The operating transfers among the funds were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ 120,000	\$ 76,402
Debt Service	15,219	-
Capital Projects	43,172	-
Water	-	14,000
Sewer	-	34,000
Electric	-	72,000
Cemetery	18,011	-
	<u>\$ 196,402</u>	<u>\$ 196,402</u>

SUPPLEMENTARY INFORMATION

SPRING CITY, UTAH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Debt Service Fund	Capital Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
		Old School Restoration	Capital Improvement		
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ -	\$ 6,149	\$ 90,085	\$ 103,702	\$ 199,936
Due from Other Fund	-	-	-	17,370	17,370
TOTAL ASSETS	\$ -	\$ 6,149	\$ 90,085	\$ 121,072	\$ 217,306
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 4,745	\$ 148	\$ 4,893
Due to Other Fund	-	6,273	83,247	-	89,520
TOTAL LIABILITIES	-	6,273	87,992	148	94,413
FUND BALANCE					
Designated					
Cemetery Endowments	-	-	-	120,924	120,924
Construction	-	(124)	2,093	-	1,969
TOTAL FUND EQUITY	-	(124)	2,093	120,924	122,893
TOTAL LIABILITIES AND FUND EQUITY	\$ -	\$ 6,149	\$ 90,085	\$ 121,072	\$ 217,306

SPRING CITY, UTAH

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	<u>Capital Project Funds</u>				Total
	Debt Service Fund	Old School Restoration	Capital Improvement	Permanent Fund	Nonmajor Governmental Funds
REVENUES					
Intergovernmental	\$ -	\$ 41,450	\$ -	\$ -	\$ 41,450
Charges for Services	-	-	-	2,750	2,750
Interest	-	191	1,765	2,458	4,414
TOTAL REVENUES	<u>-</u>	<u>41,641</u>	<u>1,765</u>	<u>5,208</u>	<u>48,614</u>
EXPENDITURES					
General Government	-	-	-	-	-
Cemetery	-	-	-	21,692	21,692
Capital Outlay	-	38,167	78,927	-	117,094
Debt Service					
Principal	10,578	-	-	11,395	21,973
Interest and Fiscal Charges	4,641	-	-	590	5,231
TOTAL EXPENDITURES	<u>15,219</u>	<u>38,167</u>	<u>78,927</u>	<u>33,677</u>	<u>165,990</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(15,219)	3,474	(77,162)	(28,469)	(117,376)
OTHER FINANCING SOURCES					
Proceeds from Long-Term Debt	-	-	-	15,026	15,026
Transfers In	15,219	-	43,172	18,011	76,402
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-	3,474	(33,990)	4,568	(25,948)
BEGINNING FUND BALANCE	<u>-</u>	<u>(3,598)</u>	<u>36,083</u>	<u>116,356</u>	<u>148,841</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ (124)</u>	<u>\$ 2,093</u>	<u>\$ 120,924</u>	<u>\$ 122,893</u>

STATE COMPLIANCE REPORT

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

October 12, 2005

**Honorable Mayor
Members of the City Council
Spring City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Spring City, Utah, for the year ended June 30, 2005 and have issued my report thereon dated October 12, 2005. As part of my audit, I have audited Spring City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

**"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)**

The City also received the following nonmajor grants which were not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Spring City's financial statements.)

**Fire Grant
Historic Preservation Grant**

My audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

**Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property
Tax Limitations
Class C Road Funds**

**Special Districts
Other General Issues
Uniform Building Code Standards
Liquor Law Enforcement
Justice Court
Impact Fees
Asset Forfeiture**

The management of Spring City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, Spring City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

A handwritten signature in cursive script that reads "Greg Ogden CPA". The signature is written in dark ink and is positioned above the printed name and title.

Greg Ogden,
Certified Public Accountant

GOVERNMENT AUDITING STANDARDS REPORT

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 12, 2005

**Honorable Mayor
Members of the City Council,
Spring City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information which collectively comprise the basic financial statements of Spring City, Utah, as of and for the year ended June 30, 2005, and have issued my report thereon dated October 12, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Spring City, Utah's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Spring City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions mentioned above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Spring City, Utah's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, the City's management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

 CPA
Greg Ogden,
Certified Public Accountant

SPRING CITY, UTAH

MANAGEMENT LETTER
JUNE 30, 2005

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

October 12, 2005

**Honorable Mayor
Members of the City Council
Spring City, Utah**

Council Members:

The primary purpose of my audit of the financial statements of Spring City, Utah, for the year ended June 30, 2005, was to enable me to form an opinion as to the financial position of the City at that date and the results of its operations for the year then ended. I believe it to be a part of my continuing professional responsibility to my clients to offer constructive suggestions relative to the City's internal control structure and other matters that come to my attention during my audit of your financial statements. Your internal control structure is extremely important because it is the principal safeguard against irregularities which an audit may not disclose.

Enclosed for your information and consideration are my comments and suggestions relating to internal accounting controls and other general matters which came to my attention during my audit of the financial statements. I have not performed any auditing procedures beyond the date of my opinion on the financial statements; accordingly, this letter is based on my knowledge as of that date and should be read with that understanding.

In those instances where the need for improvement of internal accounting controls may be indicated, I have satisfied myself by extension of audit tests and review that the indicated weaknesses have not had a significant effect upon the financial statements for the year ended June 30, 2005. Since the purpose of my audit was not to make an intensive study of the matters commented upon, additional investigation may be required before acting on my suggestions.

My suggestions deal exclusively with operational, accounting, and recordkeeping systems and procedures, and should not be regarded as a reflection on the integrity or capabilities of anyone in your organization.

I appreciate the cooperation and assistance I have received from the City's personnel in connection with my audit and in developing these recommendations.

This report is intended solely for the use of the management of Spring City. However, this report, is a matter of public record and its distribution is not limited.

I would be pleased to discuss any of these matters with you and your representatives at your convenience and, if desired, to assist you in implementing any of these suggestions.


Greg Ogden,
Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE COMPLIANCE REQUIREMENT FINDINGS

FINDING - GENERAL FUND BALANCE IN EXCESS OF AMOUNT ALLOWED

The City is allowed to maintain an unreserved general fund balance not to exceed 18% of total estimated general fund revenues. The current unreserved general fund balance of \$199,208 is approximately \$154,000 in excess of the maximum allowed.

RECOMMENDATION

I recommend that the unreserved general fund balance be brought into compliance with State requirements. This can be accomplished through increased spending in 2004 or through a transfer to the capital project fund.

RESPONSE - SPRING CITY

Funds will be transferred to the capital project fund. I have spoken with the State Auditor Richard Moon and have told him of our overage and the problem will be fixed before I get the letter from the State.

INTERNAL CONTROL FINDINGS

FINDING - ACCOUNTING FOR UTILITY DEPOSITS

When customer utility deposits are partially used to offset a utility bill, with the remainder being refunded, they are not being correctly recorded within the Caselle accounting system.

RECOMMENDATION

I recommend contacting Caselle to determine what should be done to record the deposit refund transactions correctly.

RESPONSE - SPRING CITY

Caselle has been contacted and we have learned the correct procedures to offset utility deposits.

FINDING - ACCOUNTING FOR TERMINATED UTILITY CUSTOMERS

The opening utility aging receivables balance was approximately \$4,000 lower than the ending balance from my audit of the 2004 financial statements. In researching this difference, I noted that most of the changes were for customers who had moved.

RECOMMENDATION

I recommend contacting Caselle to determine what should be done to record the termination of utility customers correctly.

RESPONSE - SPRING CITY

Caselle has been contacted and we will no longer terminate customers as quickly as we have in the past.

FINDING - ACCOUNTING FOR UTILITY PAYMENT ADJUSTMENTS

Adjustments to utility bill payments are not being correctly recorded within the Caselle accounting system.

RECOMMENDATION

I recommend contacting Caselle to determine what should be done to record the payment adjustments correctly.

RESPONSE - SPRING CITY

Caselle has been contacted and correct procedures for billing adjustments have been made.